Neurosciences

An interdisciplinary case management approach integrates the neurosurgery, neurology, psychiatry and ophthalmology disciplines at AGH. A comprehensive range of medical and surgical techniques facilitates the treatment of patients with central nervous system disorders.

The Department of Ophthalmology, since 1988, has recruited retina and glaucoma specialists to treat patients with these specific disorders. In addition, Ophthalmology and Neurosurgery continue to provide surgical laser techniques to treat orbital tumors.

The Department of Neurosurgery has expanded its service offerings, including the development of new clinical programs such as percutaneous and micro discectomy, stereotactic radiosurgery, epilepsy surgery, comprehensive spinal cord treatment services, stroke services, and pediatric neurosurgical services. In 1989, a spina bifida program was relocated to AGH, treating over 400 adult and pediatric patients afflicted with this disorder.

Trauma Services

AGH developed the first trauma center in Southwestern Pennsylvania and was the first site to be accredited as a Regional Resource (Level I) Trauma Center by the Pennsylvania Trauma Systems Foundation. The Trauma Center serves a four state region. AGH's services and facilities for treating trauma victims include a 14 bed state-of-the-art, designated critical care trauma unit, a trauma team of designated nurses and surgeons available 24 hours a day, four fully equipped trauma rooms in the Emergency Department, and personnel in Social Services who are specially trained in handling trauma patient needs. The trauma service admitted over 2,400 patients in fiscal year 1990.

In addition, in response to a demand for sophisticated emergency care, and as a result of AGH's emergency and trauma capabilities, AGH initiated the Life Flight Emergency Medical Helicopter Program ("Life Flight"), the first of its kind in the Eastern United States, serving a 130 mile radius of AGH. Over the past 13 years, Life Flight aircraft have completed over 18,000 flights. Currently, Life Flight uses two twin turbine-powered helicopters based at AGH and one helicopter based at the Butler County Airport. A variety of fixed-wing aircraft is used as needed.

Transplantation Services

AGH has initiated heart, single lung, kidney, and pancreas transplantation programs since 1988 in order to provide a complete

spectrum of services to those patients suffering from end-stage disease. As of September, 1990, 207 kidney transplants, 32 heart transplants, and 8 pancreas transplants have been completed. Two patients are undergoing evaluation for single-lung transplant.

Historical Utilization of Patient Care Services

The following tables list various statistical indicators of patient activity for AGH in fiscal years 1986 through 1990. The number of beds reported is based upon beds staffed and in operation on June 30 of each year and is not an average for the fiscal year. Discussion and analysis of historical and projected trends in patient activity and services are included under the caption, "MANAGEMENT'S DISCUSSION AND ANALYSIS".

AGH UTILIZATION STATISTICS

	Fiscal Year ended June 30,				
	1986	1987	1988	1989	1990
Licensed beds:					
Medical/Surgical	524	524	526	521	528
Obstetrics	34	34	34	34	34
Pediatrics	23	23	23	23	23
Specialty care units	123	123	131	136	139
Nursery	22	22	22	22	22
Total licensed beds	726	726	736	736	746
Available beds:					
Medical/Surgical	493	501	511	515	528
Obstetrics	32	32	32	32	34
Pediatrics	23	23	23	17	23
Specialty care units	118	118	130	135	139
Nursery	22	22	22	22	22
Total number of available beds	688	696	718	721	746
Admissions:					
Medical/Surgical	15,641	16,370	17,590	17,952	17,934
Obstetrics	2,468	2,262	2,065	2,091	2,117
Pediatrics	1,349	1,276	1,401	1,567	1,695
Specialty care units	4,250	4,295	4,693	5,048	5,532
Nursery	1,646	1,449	1,491	1,562	1,471
Total Admissions	25,354	25,652	27,240	28,220	28,749
Patient days:					
Medical/Surgical	141,675	146,934	147,467	151,596	155,844
Obstetrics	10,022	7,931	7,252	7,363	6,660
Pediatrics	6,512	6,062	6,416	6,451	7,872
Specialty care units	33,468	37,344	39,485	41,419	43,121
Nursery	5,539	4,503	4,668	4,698	4,017
Total Patient Days	197,216	202,774	205,288	211,527	217,514
Average length of stay:					
Medical/Surgical	9.1	9.0	8.4	8.4	8.7
Obstetrics	4.1	3.5	3.5	3.5	3.2
Pediatrics	4.8	4.8	4.6	4.1	4.6
Specialty care units	7.9	8.7	8.4	8.2	7.8
Overall average length of stay	7.8	7.9	7.5	7.5	7.6
Occupancy rate (as % of available beds):					
Medical/Surgical	79%	80%	79%	82%	81%
Obstetrics	86%	72%	62%	63%	57%
Pediatrics	78%	72%	77%	77%	94%
Specialty care units	81%	89%	87%	86%	87%
Overall occupancy rate	78%	80%	78%	80%	81%
Average daily census	540	556	561	580	596
Selected ancillary utilization:					
Surgical cases	14,394	13,829	14,844	16,010	16,308
Diagnostic radiological procedures	107,078	117,033	125,955	134,432	143,904
Clinical laboratory procedures	952,867	1,065,530	1,109,561	1,253,808	1,456,191
Newborn deliveries	1,736	1,558	1,622	1,692	1,612
Cardiac catheterizations	4,244	4,138	4,885	5,493	6,483
Emergency air transports	1,854	1,733	2,091	2,171	2,041
Therapeutic radiological treatments	31,970	33,706	30,168	27,185	22,421
Ambulatory visits:					
Emergency room visits	37,774	40,449	43,296	42,538	46,974
Home health	68,043	44,165	38,871	40,464	41,552
Other	59,568	59,755	56,850	72,701	84,773
Total ambulatory visits	165,385	144,369	139,017	155,703	173,299

ALLEGHENY NEUROPSYCHIATRIC INSTITUTE

Patient Origin and Service Area

ANI is located in Allegheny County, Oakdale, Pennsylvania. The 94-bed facility owned by ANI is one of only a few hospitals in the nation that provide diagnostic assessment and multi-specialty treatment of patients with behavioral disturbances that result from brain injuries and neurological disorders. During its initial two years of operation, ANI's service area has been similar to that of AGH. Each year a larger portion of ANI's admissions originate from outside Western Pennsylvania as ANI and its physicians become more widely known.

Patient Care Services

ANI currently offers inpatient services which include the following:

Adult Neuropsychiatric Unit

Patients treated on this unit are generally young to middle-aged adults with disorders that involve both neurological and behavioral problems. Typical patients might include those with Huntington's Chorea, Parkinsonism, impulse control, organic mood disorder, and status-post neurosurgical interventions.

Geriatric Unit

Patients on this unit are generally older than 55 years of age and commonly include patients with depression, cerebrovascular disease and depression, dementia and organic mood disease, Alzheimer's disease and other behavioral problems experienced by those who are elderly.

Head Injury Unit

Patients on this unit include adult head-injured patients who need assessment and treatment. Patients from this unit are referred either to rehabilitation hospitals or other health care agencies upon discharge.

Child/Adolescent Program

This unit provides inpatient care for children and adolescents with a dual diagnosis of neurological and behavioral problems. Patients treated on this unit include those with autism, developmental disorders, depression and mental retardation.

Outpatient services include a multi-disciplinary approach to the care of children and adolescents who do not require intense inpatient management. Team members work with the patient's family

and the patient's school system to ensure appropriate management of medications and behavioral programs. An eight-week day treatment program serves as a vehicle to link inpatient and outpatient care.

Historical Utilization of Patient Care Services

The following table indicates the various statistical indicators on patient activity for ANI from inception through 1990.

ANI UTILIZATION STATISTICS

	Fiscal Year Ended June 30,		
	1988	1989	1990
Licensed beds	81	94	94
Number of available beds	26	43	55
Admissions	20	198	412
Patient days	488	5,203	11,850
Average length of stay	24.4	26.3	28.8
Occupancy rate (as % of available beds)	31%	42%	67%
Average daily census	8	14	33

ALLEGHENY SINGER RESEARCH INSTITUTE

ASRI was formed in 1977. Approximately 75,000 square feet of research space is dedicated to integrated research focusing on the interdisciplinary areas of cardiovascular/pulmonary, oncology, neuroscience and musculoskeletal/trauma. These areas of focus were adopted because of their relevance to the major clinical emphasis of AGH. In addition, a human genetics focus has recently been established for the basic sciences. Research in every AGH clinical department is supported.

ASRI actively seeks grants and contracts from external organizations to support its research activities. In addition, funds are made available annually from within the Allegheny System.

ASRI provides internal funding for approximately 30 projects annually in the designated areas of interdisciplinary, basic and clinical research. All proposals submitted for internal funding are reviewed externally for scientific merit and those proposals which meet the funding eligibility score that is determined annually by the ASRI Board of Directors are funded. Internal funding is available for up to three years for each project.

During fiscal years 1988 through 1990, ASRI was awarded approximately $8.9 million in multi-year grants and contracts from external sources. The sources of such awards include federal grants and contracts, medical research foundations and health organiza-

tions, industry and pharmaceutical companies. In addition, ASRI received approximately $22.1 million of research support from within the Allegheny System. During the same time period, total expenditures for research activities amounted to approximately $24.8 million.

MEDICAL STAFF

As of September 30, 1990, there were 568 physicians on the combined AGH and ANI Medical Staffs. Of these, 320 physicians are members of the Active Staff of AGH, of which 88.1% are board certified. The average age of the Medical Staff is 42.9 years. From 1988 to 1990, the total Medical Staff had a net increase of 62 physicians. The departments experiencing the largest net increases were Medicine, Surgery and Ophthalmology.

A profile of the departments with the top ten individual admitting physician groups based on number of admissions for the fiscal year ended June 30, 1990 is as follows:

Specialty Area	Number of Admissions	Percent of Total Admissions	Average Age
General Surgery	2,045	7.1%	41.6
Cardiothoracic Surgery	1,831	6.4%	48.0
Neurosurgery	1,230	4.3%	41.3
Cardiology	1,071	3.7%	43.0
Pediatrics	1,049	3.6%	38.8
Cardiology	923	3.2%	39.2
Cardiology	919	3.2%	51.0
Obstetrics/Gynecology	918	3.2%	55.2
Obstetrics/Gynecology	851	3.0%	39.8
Cardiology	718	2.5%	37.2

A profile of the Medical Staff by department and division indicating the board certification and average age of the Active Staff as of September 30, 1990 is shown below:

DEPARTMENT/DIVISION	Total Medical Staff	Active Medical Staff		
		Number	Board Certified	Average Age
MEDICINE:				
Allergy	5	1	1	57.0
Cardiology	54	38	36	40.2
Dental Medicine	20	10	3	38.8
Dermatology	5	2	2	35.0
Endocrinology	6	3	3	44.3
Gastroenterology	14	9	8	46.3
General Medicine	46	22	17	36.8
* Hematology	12	11	11	43.0
Infectious Diseases	4	3	3	40.6
* Medical Oncology	12	12	12	42.3
Nephrology & Hypertension	13	8	8	42.3
Neurology	10	8	7	45.7
Radiation Oncology	6	3	1	47.6
Respiratory Diseases	6	4	4	46.2
Rheumatology	4	4	4	42.7
Subtotal	209	130	112	
SURGERY:				
Anesthesiology	21	21	20	41.5
Emergency Medicine	15	12	10	35.0
General Surgery	28	14	14	46.6
Oral & Maxillofacial surgery	19	8	8	43.1
Otorhinolargynology	6	3	3	43.7
Plastic Surgery	12	5	5	43.2
Proctology	3	3	3	52.3
Thoracic Surgery	12	10	10	47.4
Urology	34	9	7	44.8
Subtotal	150	85	80	
NEUROSURGERY	21	11	8	39.8
OPHTHALMOLOGY	25	5	5	41.8
PSYCHIATRY	23	12	9	39.5
ORTHOPEDIC SURGERY	37	15	14	43.5
OBSTETRICS/GYNECOLOGY	28	15	10	44.1
PEDIATRICS	46	25	22	40.4
DIAGNOSTIC RADIOLOGY	18	14	14	46.3
LABORATORY MEDICINE	11	8	8	45.9
Total	568	320	282	

* Eight of these have a dual appointment in Hematology and Medical Oncology and are counted twice, once under each specialty, but are not counted twice in the totals.

Source: Credentials and Professional Services Department

EMPLOYEES OF THE RESTRICTED GROUP

The Restricted Group currently employs a total of 5,285 full and part-time employees or approximately 4,876 full-time equivalent employees. All personnel of ANI are employed by AGH. Employees receive a comprehensive flexible benefit package which includes medical, prescription drug, vision and dental insurance, long-term disability, life insurance and health-care and dependent-care reimbursement accounts; other benefits include a tax-deferred

annuity program and a qualified pension program. There are no unions representing employees of the Restricted Group. Management has taken steps to attract and retain qualified personnel and to date has not experienced any significant personnel shortages.

EDUCATION PROGRAMS

AGH is dedicated to becoming a premier academic medical center. Education is provided for AGH's physicians, nurses, allied health personnel, health care managers/administrators and other employees through a full range of graduate education, continuing education, outreach and national conferences. The affiliation with MCP has also enhanced AGH's ability to fulfill its commitment to medical education. Approximately 50% of the third and fourth year medical students of MCP rotate through AGH, completing clerkships and electives/selectives, respectively. AGH's Graduate Medical Education program is one of the most comprehensive of any teaching hospital in Western Pennsylvania. Graduate Medical Education at AGH is supported by active medical staff with university faculty appointments. In addition, other members of the active medical staff, both voluntary staff and employed physicians, are involved in teaching programs at AGH.

AGH maintains residency programs in anesthesiology, dentistry, diagnostic radiology, emergency medicine, internal medicine, nuclear medicine, general surgery, obstetrics-gynecology, oral maxillofacial surgery, pathology, therapeutic radiology, and thoracic surgery. In addition, AGH has affiliated residencies in the areas of otolaryngology, ophthalmology, plastic surgery, and urology. An orthopedic surgery residency program application was submitted on August 1, 1990 to the Residency Review Committee for Orthopedic Surgery of the Accreditation Council for Graduate Medical Education ("ACGME") of the American Medical Association to establish a free-standing orthopedic residency program at AGH. For physicians seeking further training upon completion of their residency, AGH offers fellowships in cardiology, gastroenterology, pulmonary diseases, oncology, nephrology, and neuroradiology. At present, there are 181 residents and fellows participating in these programs.

In addition, AGH seeks to integrate clinical service, education, and research programs to enhance the health status and quality of life in the community. Research and education programs support patient care programs, are relevant to AGH's clinical emphasis, and reflect AGH's commitment to quality.

ACCREDITATIONS, MEMBERSHIPS AND APPROVALS

AGH is accredited by the Joint Commission on Accreditation of Healthcare Organizations ("JCAHO"), licensed by the Commonwealth of Pennsylvania and approved by the American College of Physicians and

the American College of Surgeons. AGH was accredited by the JCAHO on September 17, 1988 for a three-year period. AGH is a member of the American Hospital Association, the Council of Teaching Hospitals, the Association of American Medical Colleges, the Hospital Association of Pennsylvania and the Hospital Council of Western Pennsylvania. AGH is also a shareholder in the Voluntary Hospitals of America, Inc. and a partner in the VHA of Pennsylvania.

ANI was accredited by the JCAHO on April 15, 1990 for a three-year period and is licensed by the Pennsylvania Department of Public Welfare.

Each residency and fellowship program of AGH is approved by the ACGME or the Commission on Dental Accreditation of the American Dental Association.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Results of Operations

The overall financial performance of the Restricted Group for fiscal years 1990 and 1989 was strong in light of several significant factors. Inpatient activity for fiscal years 1990 and 1989 (as measured by admissions) increased by 2.6% and 4.2%, respectively, in a generally declining health care market. Furthermore, the level of patient acuity intensified by approximately 2% each year, as measured by the case mix index. Additionally, the level of outpatient activity increased by over 11% in each of the two fiscal years. With respect to the various sources of patient revenue, the Restricted Group experienced an increase in the proportion of charges related to Medicare and Medicaid patients with a corresponding reduction in the proportion of commercial insurance and self-pay revenue.

With respect to other significant matters, fiscal years 1990 and 1989 represented the first full years of operations at ANI, a redirection of funding responsiblity for ASRI and the initiation of a funding commitment to MCP. ANI sustained start-up operating losses of $1.1 million and $1.9 million in fiscal years 1990 and 1989; however, with the significant progress toward implementation of the physician recruitment plan and subsequent increases in patient admissions, future operating losses are not anticipated. Additionally, commencing in fiscal year 1989, AGH assumed responsibility for funding ASRI research activities, thereby eliminating this previous stream of revenue from outside of the Restricted Group. The funding commitment to MCP is in accordance with an affiliation agreement and is comprised of a specified base level in fiscal year 1989 and 1990 of $4.6 million annually and a research

block grant of $765,000 in fiscal year 1990 and $500,000 in fiscal year 1989. In fiscal year 1989, additional funding of $1 million was provided to MCP to support academic program development. See the information herein under the caption, "CERTAIN FINANCIAL INFORMATION OF THE RESTRICTED GROUP - Support to MCP".

Notwithstanding these various factors and policy changes, the Restricted Group's financial performance remained strong with excess of revenues over expenses amounting to approximately $8.2 million and $23.6 million for fiscal years 1990 and 1989, respectively.

For the four-month period ended October 31, 1990, clinical activity continued to grow as evidenced by 10,305 admissions which generated $102.3 million in patient service revenue. Total operating expenses amounted to $106.7 million. Other operating and non-operating revenue amounted to $5.1 million and $3.0 million, respectively, yielding an excess of revenues over expenses for the four-month period of $3.7 million. The Restricted Group provided $5.5 million in support to MCP, representing the full fiscal year 1991 commitment under the affiliation agreement between AHS and MCP, as described below under the caption, "CERTAIN FINANCIAL INFORMATION OF THE RESTRICTED GROUP - Support to MCP". The $5.5 million is composed of the base support ($4.6 million) and research support ($900,000).

Financial Condition

The key liquidity ratios remained strong for fiscal years 1990 and 1989. In addition, continued growth has occurred in the investments limited or restricted as to use, primarily as a result of annual deposits to the Board-designated funded depreciation account. With respect to overall capitalization, the Restricted Group maintained a debt to capitalization ratio of 37.6% and 38.9% for fiscal years 1990 and 1989, respectively.

Total assets at October 31, 1990 amounted to $398.4 million, an increase of $5.8 million since June 30, 1990. Key liquidity ratios remain strong and the debt to capitalization ratio remained fairly stable at 38.3%.

Future Plans

Construction is currently underway on a 119-bed Continuing Care Center (the "CCC") which will be adjacent to AGH on its present campus. The beds will be licensed as skilled nursing beds. The CCC is projected to begin operations on or about August 1, 1991 and is expected to have a favorable impact on the overall financial performance of the Restricted Group. In addition, approximately 20,000 square feet is not yet allocated, which could provide space for other revenue-producing clinical services. The costs of construction of the CCC will be financed, in part, through the proceeds of the sale of the Bonds.

ANI's census is anticipated to continue to demonstrate steady growth. Deliberate marketing efforts include participation by physicians and other staff at regional and national conferences, quarterly educational conferences and other inservices hosted at ANI, and aggressive case-finding at AGH and other facilities in ANI's immediate market area. A full-time medical director commenced employment on January 1, 1991, which will further solidify the leadership base and provide a strong base for additional physician recruitments to support the anticipated growth in the adolescent, head trauma and geriatric programs.

ASRI has targeted human genetics as a major focus for the basic sciences. A search committee is actively seeking a nationally recognized qualified candidate for the position of Chairman of the Department of Human Genetics. It is anticipated that this department will advance the clinical capabilities of AGH in addition to expanding the external funding base of ASRI. Additional research focus will also be applied to cardiovascular, neurosciences, cancer, and accidents/musculoskeletal, which are major health problem areas of patients treated at AGH.

In addition to continuing to strengthen its clinical specialties through program enhancements, AGH is committed to a thorough self-evaluation with regard to operational efficiency and effectiveness. Managers at all levels in the organization have been mobilized in order to examine materials, supplies and human resources utilization. A physician working group has also been established to specifically target practice patterns in connection with patient care supplies and drugs. Specific efficiency targets have been established which management believes will further strengthen AGH's financial performance.

AHS has developed a deliberate, well-conceived plan for growth. It constantly assesses opportunities in the marketplace that will enhance its commitment to improve the health of the communities it serves. Certain plans that are currently underway at AGH include an evaluation of a redesign of the emergency room and trauma center that will provide space and efficiency for serving patient needs in the 21st century. It is anticipated that AHS will also evaluate clinical and academic affiliations that will enhance its health and academic objectives. All analysis is done with the belief that only through effective and efficient management of resources and people will health care institutions be able to provide a viable delivery of patient care services into the challenging environment of the year 2000.

Proposed Affiliation

Effective January 11, 1991, AHS entered into an Agreement of Reorganization with United Hospitals, Inc. ("UH"). The Agreement of Reorganization provides that the hospitals within the UH system will become part of the Allegheny System either through a merger of

all or part of the UH system into a corporation of which AHS is the sole member or, at the election of AHS, through an amendment of the Articles of Incorporation of UH that names AHS as the sole member of UH. The Agreement of Reorganization is subject to various conditions (including the obtaining of various governmental approvals), and the reorganization is scheduled to be completed on June 30, 1991 (or later if necessary regulatory approvals have not been obtained by such date).

UH is a Pennsylvania nonprofit corporation which is the parent corporation of a multi-corporate structure and is the sole member of several Pennsylvania nonprofit corporations that own and operate hospitals. The hospitals currently in the UH system, all of which are located in the Philadelphia metropolitan area, are Lawndale Community Hospital, a 67-bed general hospital, Rolling Hill Hospital, a 280-bed general hospital, New St. Christopher's Hospital for Children, a 146-bed children's hospital, and Warminster General Hospital, a 180-bed general hospital.

AHS does not expect that consummation of the reorganization provided for in the Agreement of Reorganization with UH will result in UH or any of UH's affiliates becoming members of the Restricted Group. No member of the Restricted Group is liable on any obligations of UH.

CERTAIN FINANCIAL INFORMATION OF THE RESTRICTED GROUP

Summary Statement of Revenues and Expenses

The following table summarizes the results of operations of the Restricted Group for the three years ended June 30, 1990 and for the four months ended October 31, 1990. The statements for the three years ended June 30, 1990 have been derived from the consolidated audited financial statements of the Restricted Group as examined by Coopers & Lybrand, independent public accountants. The statements for the four-month period ended October 31, 1990 have been derived from the unaudited consolidated financial statements of the Restricted Group for such period prepared by management, which unaudited consolidated financial statements, in the opinion of management of the Restricted Group, have been prepared in accordance with generally accepted accounting principles applied on a consistent basis and reflect all adjustments which are, in the opinion of management, necessary for a fair presentation of the results of operations for the interim period. The results of operations for the four months ended October 31, 1990 are not necessarily reflective of the results which may be achieved for the full fiscal year. In the opinion of management of the Restricted Group, there has been no material adverse change in the financial condition or the results of operations of the Restricted Group since October 31, 1990. All of the summary financial information provided below should be read in conjunction with the consolidated audited and unaudited financial statements, related notes and other financial information of the Restricted Group included in Appendix B.

Summary Statement of Revenue and Expenses
(Dollars in thousands)

	Fiscal Year ended June 30, 1988(1)	1989	1990	(Unaudited) Four months ended October 31, 1990
Operating revenue:				
Net patient service revenue	$226,387	$263,726	$285,371	$102,289
Other operating revenue	16,705	13,089	10,820	5,115
Total operating revenue	243,092	276,815	296,191	107,404
Operating expenses:				
Salaries, wages, and fringe benefits	126,312	147,828	168,608	60,129
Materials, supplies and services	70,443	83,863	94,737	36,097
Depreciation and amortization	12,592	15,349	17,806	6,964
Interest	8,204	10,551	10,512	3,531
Total operating expenses	217,551	257,591	291,663	106,721
Income from operations	25,541	19,224	4,528	683
Non-operating revenue	12,675	10,490	9,060	3,005
Excess of revenue over expenses before support to affiliate	38,216	29,714	13,588	3,688
Support to The Medical College of Pennsylvania (2)	0	6,100	5,365	5,500
Excess (Deficiency) of revenue over expenses	$ 38,216	$23,614	$ 8,223	$ (1,812)

(1) AHI commenced operations in May 1988.

(2) See the information below under the caption, "Support to MCP".

Support to MCP

Pursuant to an affiliation agreement between AHS and MCP, AHS is obligated to contribute to MCP $4.6 million annually through June 30, 1991 and thereafter an amount equal to 15% of the "net income" of AHS, as defined in the affiliation agreement. In addition, AHS is obligated to contribute annually to MCP for research support, an amount equal to the lesser of (1) 10% of MCP's annual competitive research funding or (2) 15% of AHS's internal research funding. In 1989 and 1990, this research support amounted to $500,000 and $765,000, respectively. Also, in 1989, AHS contributed an additional $1 million to MCP to support the development of academic programs. Because the MCP affiliation was entered into primarily for the mutual support of the educational programs of AGH and MCP, AGH has assumed the responsibility to make the support payments to MCP.

Sources of Revenue

AGH receives revenue from Medicare, Medicaid, Blue Cross, various commercial insurance carriers, and from patients directly. Medicare and Medicaid pay AGH for inpatient services based on a prospective rate for each discharge, determined by the patient's diagnosis. Capital related costs, direct medical education costs and outpatient services are reimbursed under a reasonable cost based system with certain limitations on the amount of reimbursement except that capital related costs are reimbursed by Medicaid on a prospective payment system. ANI is reimbursed on a reasonable cost basis for Medicare and Medicaid. The cost base for Medicaid excludes capital costs. Similar regulations for each of the two payors establish ceiling limitations, based upon actual audited costs, which are adjusted annually. ANI is reimbursed its actual costs and is not limited by the annual inflated ceiling. AGH and ANI are reimbursed by Blue Cross of Western Pennsylvania ("Blue Cross") under a prospective plan whereby AGH and ANI and Blue Cross agree upon an annual operating budget with incentives or penalties based upon actual cost performance. AGH is currently renegotiating its Blue Cross contract, however, no significant changes are contemplated. Most commercial insurance plans reimburse their subscribers or make direct payments to hospitals for covered services at prevailing area room rates, plus ancillary service charges, subject to various limitations, insurance provisions and deductibles. For further information on sources of revenue, refer to the information under the caption, "BONDHOLDERS' RISKS" in the forepart of this Official Statement.

An analysis of the historical percentage of gross patient service revenue by payment source for AGH and ANI combined is as follows:

	Fiscal Year Ended June 30,		
	1988	1989	1990
Blue Cross	25.6%	24.4%	24.0%
Medicare	41.5	41.6	43.5
Medicaid	9.7	11.3	12.5
Other	23.2	22.7	20.0
	100.0%	100.0%	100.0%

Insurance

Act No. 111 of 1975 of the General Assembly of Pennsylvania, as amended (the "Act"), established a requirement that each health care provider in Pennsylvania carry basic professional liability insurance coverage in the amounts established by the Act. The Act also created the Medical Professional Liability Catastrophe Loss

Fund, a contingency fund to pay professional liability settlements or awards against health care providers to the extent such payments exceed the basic insurance coverage required by the Act. The statutory limit of liability of the fund for a hospital health care provider is $1,000,000 for each occurrence with an annual aggregate limit of $3,000,000. Each hospital provider participating in this program is required by the Act to insure its liability by either purchasing professional liability insurance or electing a self-insurance program providing basic coverage in the amount of $200,000 per occurrence with an annual aggregate limit of $1,000,000.

AGH and ANI carry the required professional liability insurance with a commercial insurance carrier which reinsures the entire exposure through AHSPIC. AGH and ANI also carry excess umbrella coverage and insurance covering general liability and other risks customarily insured by hospitals. These insurance coverages are in amounts deemed by management and the Board of each of AGH and ANI to be sufficient. Premiums paid to AHSPIC are determined by an independent actuary.

The reinsurance obligation of AHSPIC to the commercial insurance carrier is secured by a letter of credit issued by a commercial bank currently in the amount of $10 million, which will increase to $13 million on January 1, 1991. AGH has guaranteed AHSPIC's obligation to reimburse the issuer of the letter of credit for draws made thereon.

Under the Act, all practicing physicians are required to maintain professional liability insurance coverage in the amount of $200,000 per occurrence with an annual aggregate limit of $600,000. Proof of this coverage is required by AGH and ANI in order for any physician to be credentialed as a member of the AGH or ANI Medical Staff. AGH and ANI provide professional liability insurance coverage for their employed physicians as part of their insurance program.

AHSPIC provides the flexibility for AGH to offer professional liability insurance coverage to certain non-employed members of its Medical Staff. A non-employed physician program was implemented at AGH on July 1, 1990.

APPENDIX B

CONSOLIDATED FINANCIAL STATEMENTS OF THE RESTRICTED GROUP FOR THE FOUR MONTHS ENDED OCTOBER 31, 1990 AND FOR THE THREE YEARS ENDED JUNE 30, 1990

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Coopers
&Lybrand

certified public accountants

Report of Independent Accountants

To the Board of Directors of
Allegheny General Hospital (The Restricted Group):

We have audited the accompanying consolidated balance sheets of The Restricted Group as of June 30, 1990 and 1989, and the related consolidated statements of revenue and expenses, changes in net equity, and cash flows for each of the three years in the period ended June 30, 1990. These consolidated financial statements are the responsibility of The Restricted Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Restricted Group as of June 30, 1990 and 1989, and the consolidated results of its operations and its cash flows for each of the three years in the period ended June 30, 1990 in conformity with generally accepted accounting principles.

Coopers & Lybrand

Pittsburgh, Pennsylvania
August 31, 1990

THE RESTRICTED GROUP

CONSOLIDATED BALANCE SHEETS
(Dollars in thousands)

ASSETS

	(Unaudited) October 31, 1990	June 30, 1990	June 30, 1989
Current assets:			
Cash and cash equivalents	$ 4,567	$ 14,494	$ 168
Short-term investments	3,628	3,802	25,776
Receivables:			
Patient accounts receivable, less uncollectible accounts of $15,625, $15,125, and $13,995, respectively	82,023	73,454	73,233
Grants and other	8,546	5,203	5,362
Inventories	5,738	5,608	2,355
Prepaid expenses	2,387	2,830	3,608
Total current assets	106,889	105,391	110,502
Investments limited or restricted as to use	114,897	117,152	102,526
Property and equipment, net	161,241	160,103	161,225
Other assets	15,383	9,914	7,694
Total assets	$ 398,410	$392,560	$381,947

LIABILITIES AND NET EQUITY

	(Unaudited) October 31, 1990	June 30, 1990	June 30, 1989
Current liabilities:			
Accounts payable and accrued expenses	$ 44,101	$ 39,994	$ 34,480
Deferred grant revenue	7,906	3,287	1,971
Current portion of long-term debt	1,730	1,695	1,630
Total current liabilities	53,737	44,976	38,081
Deferred reimbursement	9,625	9,809	13,966
Deferred grant revenue	7,244	2,838	2,528
Long-term debt	119,735	120,160	121,855
	136,604	132,807	138,349
Net equity:			
General	192,285	199,729	191,137
Restricted:			
Specific purposes	7,297	6,882	6,323
Endowments and trusts	3,732	3,704	3,494
Research and training grants	4,755	4,462	4,563
	208,069	214,777	205,517
Total liabilities and net equity	$ 398,410	$392,560	$381,947

The accompanying notes are an integral part of the consolidated financial statements.

THE RESTRICTED GROUP

CONSOLIDATED STATEMENTS OF REVENUE AND EXPENSES
(Dollars in thousands)

	(Unaudited) Four Months Ended October 31, 1990	Years ended June 30, 1990	1989	1988
Operating revenue:				
Net patient service revenue	$102,289	$285,371	$263,726	$226,387
Other operating revenue	5,115	10,820	13,089	16,705
Total operating revenue	107,404	296,191	276,815	243,092
Operating expenses:				
Salaries, wages, and fringe benefits	60,129	168,608	147,828	126,312
Materials, supplies, and services	36,097	94,737	83,863	70,443
Depreciation and amortization	6,964	17,806	15,349	12,592
Interest	3,531	10,512	10,551	8,204
Total operating expenses	106,721	291,663	257,591	217,551
Income from operations	683	4,528	19,224	25,541
Nonoperating revenue	3,005	9,060	10,490	12,675
Excess of revenue over expenses before support to affiliate	3,688	13,588	29,714	38,216
Support to affiliate, The Medical College of Pennsylvania	5,500	5,365	6,100	-
Excess (deficit) of revenue over expenses	$ (1,812)	$ 8,223	$ 23,614	$ 38,216

The accompanying notes are an integral part of the consolidated financial statements.

THE RESTRICTED GROUP

CONSOLIDATED STATEMENTS OF CHANGES IN NET EQUITY
(Dollars in thousands)

	General Funds	Restricted Funds: Specific Purposes	Restricted Funds: Endowments and Trusts	Restricted Funds: Research and Training Grants
Balances at June 30, 1987	$135,227	$ 12,481	$ 49,187	$ 4,734
Excess of revenues over expenses	38,216	-	-	-
Restricted:				
Gifts, grants and bequests	-	850	-	-
Depreciation of assets	-	-	-	(499)
Investment income	-	440	1,496	-
Transfers to:				
Parent and affiliates	(4,155)	-	(47,255)	-
Other operating revenues	-	(664)	-	-
Property and equipment additions from:				
Restricted funds	958	(958)	-	-
Deferred revenue and other	-	-	-	299
Balances at June 30, 1988	170,246	12,149	3,428	4,534
Excess of revenues over expenses	23,614	-	-	-
Restricted:				
Gifts, grants, and bequests	-	766	4	-
Depreciation of assets	-	-	-	(560)
Investment income	-	647	62	-
Transfers to:				
Parent and affiliates	(9,082)	-	-	-
Other operating revenues	-	(519)	-	-
Property and equipment additions from:				
Restricted funds	6,720	(6,720)	-	-
Deferred revenue and other	(361)	-	-	589
Balances at June 30, 1989	191,137	6,323	3,494	4,563

(continued)

THE RESTRICTED GROUP

CONSOLIDATED STATEMENTS OF CHANGES IN NET EQUITY (continued)
(Dollars in thousands)

	General Funds	Restricted Funds: Specific Purposes	Restricted Funds: Endowments and Trusts	Restricted Funds: Research and Training Grants
Balances at June 30, 1989	191,137	6,323	3,494	4,563
Excess of revenues over expenses	8,223	-	-	-
Restricted:				
Gifts, grants, and bequests	-	701	14	-
Depreciation of assets	-	-	-	(667)
Investment income	-	531	196	-
Transfers to:				
Parent and affiliates	(19)	-	-	-
Other operating revenues	-	(226)	-	-
Property and equipment additions from:				
Restricted funds	447	(447)	-	-
Deferred revenue and other	(59)	-	-	566
Balances at June 30, 1990	199,729	6,882	3,704	4,462
(Fiscal year to date activity unaudited)				
Excess of revenues over expenses	(1,812)	-	-	-
Restricted:				
Gifts, grants and bequests	-	77	-	-
Depreciation of assets	-	-	-	(272)
Investment income	-	192	28	-
Transfers to:				
Parent and affiliates	(240)	-	-	-
Restricted funds	(551)	157	-	394
Other operating revenue	-	(11)	-	-
Property and equipment additions from deferred revenue and other	-	-	-	171
Unrealized loss in equity securities	(4,841)	-	-	-
Balances, October 31, 1990 (unaudited)	$192,285	$ 7,297	$ 3,732	$ 4,755

The accompanying notes are an integral part of the consolidated financial statements.

THE RESTRICTED GROUP

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)

	(Unaudited) Four Months Ended October 31, 1990	Years ended June 30, 1990	1989	1988
Cash flows from operating activities:				
Excess of revenue over expenses before support to affiliate	$ 3,688	$ 13,588	$ 29,714	$ 38,216
Adjustments to reconcile excess of revenue over expenses before support to affiliate to net cash provided by operating activities:				
Depreciation and amortization	6,964	17,806	15,349	12,592
Increase (decrease) in cash from changes in:				
Short-term investments	174	21,974	38,604	(40,172)
Receivables	(11,912)	(62)	(25,835)	(28,562)
Inventories	(130)	(3,253)	(316)	(501)
Prepaid expenses	443	778	220	(2,220)
Other assets	(5,612)	(2,632)	(756)	(4,731)
Accounts payable and accrued expenses	4,107	5,514	1,670	6,375
Deferred grant revenue	9,025	2,133	414	2,264
Deferred reimbursement	(184)	(4,157)	(700)	(1,966)
Net cash provided (used) by operating activities	6,563	51,689	58,364	(18,705)
Cash flows from investing activities:				
Acquisition of property and equipment	(7,959)	(16,272)	(23,120)	(30,992)
Restricted gifts, grants, and bequests	77	715	770	850
Restricted investment income	220	727	709	1,936
Utilization of restricted funds for operations	(112)	(893)	(1,079)	(864)
Decrease (increase) in investments limited or restricted as to use	(2,586)	(14,626)	(15,131)	35,291
Net cash provided (used) by investing activities	(10,360)	(30,349)	(37,851)	6,221

(continued)

THE RESTRICTED GROUP

CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
(Dollars in thousands)

	(Unaudited) Four Months Ended October 31, 1990	Years ended June 30, 1990	1989	1988
Cash flows from financing activities:				
Issuance of long-term debt	-	-	-	60,000
Repayment of long-term debt	(390)	(1,630)	(1,470)	(8,185)
Net transfers to parent and affiliates	(5,740)	(5,384)	(21,936)	(51,410)
Net cash provided (used) by financing activities	(6,130)	(7,014)	(23,406)	405
Net increase (decrease) in cash and cash equivalents	(9,927)	14,326	(2,893)	(12,079)
Cash and cash equivalents, beginning of year	14,494	168	3,061	15,140
Cash and cash equivalents, end of year	$ 4,567	$ 14,494	$ 168	$ 3,061

The accompanying notes are an integral part of the consolidated financial statements.

THE RESTRICTED GROUP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 1990 and 1989
(Dollars in thousands)

1. The Restricted Group:

The Restricted Group (TRG) was formed on December 31, 1983 in connection with the issuance of hospital revenue bonds. Currently TRG consists of Allegheny General Hospital (AGH), Allegheny Singer Research Institute (ASRI), and Allegheny Neuropsychiatric Institute (ANI). AGH operates a 746-bed tertiary care facility. ASRI is a nonprofit medical research institute that receives funding from AGH, federal and state agencies, and foundations. ANI operates a 94-bed neuropsychiatric hospital. All are Pennsylvania nonprofit charitable organizations.

Allegheny Health Services, Inc. (AHS), a nonprofit charitable organization, is the parent company of AGH. AGH is the parent company of ASRI and ANI. AGH also owns all of the stock of Allegheny Health Services Providers Insurance Company (AHSPIC), a captive insurance company incorporated in the Cayman Islands. AHS is also the parent company of Allegheny Health Foundation (AHF), Centennial Health Services (CHS), and The Medical College of Pennsylvania (MCP).

2. Accounting Policies:

The significant accounting policies applied in preparing the accompanying consolidated financial statements are summarized below:

Principles of Consolidation:

The accompanying consolidated financial statements include the accounts of AGH, ASRI, and ANI. All intercompany transactions have been eliminated in consolidation.

Restricted Net Equity:

Restricted gifts and other restricted resources are recorded as additions to the appropriate restricted net equity. Such amounts are restricted by the donor and may be utilized only in accordance with the purposes established by the donor. Amounts restricted by donors for specific operating expenses are reported in operating revenue to the extent used within the period. Amounts restricted by donors for acquisition of property and equipment are transferred to general net equity to the extent expended within the period.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands)

2. Accounting Policies, continued:

Net Patient Service Revenue:

A substantial portion of revenue is earned under third-party contracts and is subject to audit and retroactive adjustment by third-party payers. Adjustments related to final settlements with third parties and changes in estimates are included in the determination of net patient service revenue in the year in which the adjustments become known.

Cash and Cash Equivalents:

Highly liquid investments purchased with a maturity date of three months or less are considered to be cash equivalents.

Investments and Investment Income:

Short-term investments are carried at cost, which approximates market value.

Donated investments from organizations within the AHS system are recorded at cost with those from all other sources recorded at fair market value at the date of contribution. Investments in fixed income securities are recorded at cost when it is management's intent and ability to hold these obligations until maturity. Marketable equity securities included in investment portfolios are carried at the lower of aggregate cost (determined on an average cost basis) or market at the balance sheet date. Impairments in value that are deemed to be other than temporary are reflected in the consolidated statements of revenue and expenses. Gains and losses on sales of investments are based on average cost and are included in nonoperating revenue.

TRG's investments, other than those related to restricted endowments and trusts and those restricted by donor for specific purposes, are invested pursuant to a master trust arrangement that includes the investments of other AHS entities. Investments in the Master Trust consist primarily of certificates of deposit, government obligations and corporate obligations that have fixed rates of return, and marketable equity securities. Investment income and realized gains or losses are allocated on the pro rata cost value of each entity's investment. TRG's pro rata share of the Master Trust is stated at cost.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands)

2. Accounting Policies, continued:

Investments and Investment Income, continued:

TRG's investments restricted by donor for specific purposes and endowments and trusts consist generally of the same types of investments as the Master Trust.

Grants Receivable:

Grants receivable represent research grants awarded that are recorded as additions to deferred revenue and recognized as revenue to the extent used within the period. The terms of the grants generally require that the entire grant be expended or committed for expenditure over the grant period or returned to the granting agency.

Inventories:

Inventories are valued at the lower of cost (determined on the first-in, first-out method) or market.

Property and Equipment:

Property and equipment, along with expenditures that extend the useful lives of assets, are recorded at cost. Maintenance and repairs are charged to expense as incurred. At the time assets are retired or otherwise disposed of, the cost thereof and accumulated depreciation or amortization are eliminated and any resulting gain or loss on disposition is credited or charged to operations.

Depreciation is provided over the estimated useful life of the assets computed under the straight-line method.

Other Assets:

Other assets consist primarily of bond financing costs and cash surrender value on life insurance policies. The bond financing costs are being amortized over the term of the bonds using the straight-line method.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands)

2. Accounting Policies, continued:

Deferred Reimbursement:

Deferred reimbursement results from differences in the timing of the recognition of certain items of revenue and expense for financial statement and reimbursement purposes. The deferred reimbursement balance represents management's best estimate of the liability based on enacted reimbursement regulations.

Statement of Cash Flows:

TRG adopted the provisions of Statement No. 95, "Statement of Cash Flows," in its 1990 consolidated financial statements and restated the previously reported consolidated statement of changes in financial position for 1989 and 1988.

Reclassifications:

Certain amounts in the fiscal year 1989 and 1988 consolidated financial statements have been reclassified for comparative purposes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands)

3. Investments Limited or Restricted as to Use:

Investments limited or restricted as to use consist of the following components:

	June 30, 1990	June 30, 1989
By Board for Designated Purposes:		
Future addition for replacement of property and equipment	$ 99,117	$ 85,235
Insurance reserve fund	617	-
	99,734	85,235
By Financing Agreement:		
Debt service reserve fund	7,459	7,459
Debt service fund	3,912	4,449
	11,371	11,908
By Donor Restriction:		
Specific purposes	6,872	6,338
Endowments and trusts	3,704	3,494
	10,576	9,832
Total investments limited or restricted as to use	121,681	106,975
Less current portion included in cash and cash equivalents	4,529	4,449
	$117,152	$102,526

The Board of Directors retains control over designated investments and may, at its discretion, subsequently use such investments for other purposes. Investments limited or restricted as to use that are required to satisfy obligations classified as current liabilities are included in cash and cash equivalents on the consolidated balance sheets. The market value of all investments limited or restricted as to use was $123,042 and $108,743 at June 30, 1990 and 1989, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands)

4. Property and Equipment:

Property and equipment consist of the following components:

	June 30, 1990	June 30, 1989
Buildings and building improvements	$159,240	$147,792
Equipment	101,071	91,887
Land and land improvements	9,602	9,442
Construction in progress	5,361	10,164
	275,274	259,285
Less accumulated depreciation and amortization	115,171	98,060
	$160,103	$161,225

5. Long-Term Debt:

Long-term debt is comprised of the following obligations:

	June 30, 1990	June 30, 1989
Series 1988 A - D Revenue Bonds (with maturity dates from 1999 through 2018 and adjustable interest rates)	$ 58,300	$ 59,200
Series 1983-D Revenue Bonds (with maturity dates through December, 2012 and interest rates from 8.75% to 10.625%)	63,555	64,285
	121,855	123,485
Less amounts maturing within one year	1,695	1,630
	$120,160	$121,855

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands)

5. Long-Term Debt, continued:

On February 24, 1988, TRG obtained $60,000 through the issuance of Allegheny County Hospital Development Authority (Authority) Hospital Revenue Bonds, Series 1988 A - D (1988 Bonds) to provide funds for capital expenditures, the acquisition and renovation of ANI, and retirement of certain VHA Bonds. Under the provisions of the 1988 Bonds, six different interest modes can be selected. Currently interest is accruing under the weekly mode and at June 30, 1990 the rate was 5.7%. During fiscal year 1990, interest rates ranged from 5.3% to 6.7%. In accordance with the Master Trust Indenture, the 1988 Bonds are subject to early redemption. Redemption of the 1988 Bonds is guaranteed by a renewable irrevocable letter of credit from a bank.

On December 1, 1983, TRG obtained $65,870 through the issuance of Authority Hospital Revenue Bonds, Series 1983-D (1983 Bonds) to refund its Series K Authority Revenue Refunding and Improvement Bonds and Series N Authority Revenue Bonds. Pursuant to the refunding plan, the 1983 Bonds proceeds were deposited into an irrevocable escrow account invested in federal government obligations scheduled to mature and pay interest in amounts sufficient to meet all debt service requirements for the Series K and Series N Bonds. The escrow funds along with the Series K and Series N bonds are not included on TRG's consolidated balance sheets. The outstanding principal balances of the Series K and Series N Bonds were $9,410 and $71,925, respectively, at June 30, 1990. In accordance with the Master Trust Indenture, the 1983 Bonds are subject to early redemption at the option of TRG.

Both the 1988 Bonds and the 1983 Bonds are subject to the requirements of the Master Trust Indenture. Under the provisions of the Master Trust Indenture, TRG is directly obligated to make rental payments under a lease and sublease arrangement which are sufficient to enable the Authority to make timely payments of principal and interest. These bonds are collateralized by the pledge of certain of TRG's gross revenues, accounts receivable, unrestricted investments, and certain other assets to the Master Trustee. This indenture contains certain financial and operational covenants, the most restrictive of which requires TRG to maintain net revenue (revenue less certain stipulated expenses) at an amount equal to 110% of the average annual debt service requirements.

Following are scheduled principal repayments on the long-term debt for the next five fiscal years:

1991 - $1,695	1994 - $2,145
1992 - $1,870	1995 - $2,250
1993 - $1,955	

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands)

6. Net Patient Service Revenue:

Net patient service revenue consists of the following components:

	Years ended June 30,		
	1990	1989	1988
Gross patient service revenue:			
Hospital charges	$548,172	$451,169	$377,551
Professional fees	27,562	22,895	21,773
	575,734	474,064	399,324
Less provisions for:			
Contractual adjustments	276,749	195,412	161,107
Uncompensated care	13,614	14,926	11,830
	290,363	210,338	172,937
	$285,371	$263,726	$226,387

Contractual adjustments represent the differences between amounts to be paid under hospitalization or other related health benefit contracts and standard billing rates. Provisions for contractual adjustments are recorded in the period in which the services are provided.

7. Nonoperating Revenue:

Nonoperating revenue consists of the following components:

	Years ended June 30,		
	1990	1989	1988
Investment income from:			
Investments limited or restricted as to use	$ 7,192	$ 8,366	$ 10,023
Other	1,549	1,816	2,548
Gifts and bequests	319	308	104
	$ 9,060	$10,490	$ 12,675

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands)

8. Insurance:

TRG is self-insured for primary coverage and certain levels of excess coverage related to professional and general liability claims through AHSPIC. In addition, TRG participates in the Medical Professional Liability Catastrophic Loss Fund of the Commonwealth of Pennsylvania (CAT Fund) and maintains insurance under commercially insured programs on a claims made basis for amounts in excess of the AHSPIC or the CAT Fund coverage. Premiums paid by TRG to the captive insurance company, AHSPIC, are based on funding requirements determined by independent insurance actuaries. During fiscal years 1990, 1989, and 1988, TRG's total professional and general liability insurance expenses were $4,620, $5,472, and $5,505, respectively, including $2,691, $2,832, and $2,357 related to coverage from AHSPIC.

TRG is self-insured for workers' compensation liability claims. Funding requirements are determined by independent insurance actuaries. Effective July 1, 1989, TRG recorded an equivalent asset and liability of $1,781 representing the workers' compensation reserves and trust funds. During fiscal years 1990, 1989, and 1988, total workers' compensation expenses were $2,468, $1,315, and $1,398, respectively.

9. Pension Plan:

TRG maintains a noncontributory, defined benefit pension plan covering substantially all employees at AGH, ASRI, and ANI. Pension benefits are based on years of credited service and the employees' highest consecutive five-year average compensation in the most recent ten years of service. AGH's funding policy is to contribute such amounts as are necessary on an actuarial basis to provide the plan with assets sufficient to meet benefits to be paid to retirees or their beneficiaries and to satisfy the minimum funding requirements of ERISA.

The net pension cost includes the following components:

	June 30,		
	1990	1989	1988
Service cost-benefits earned during the period	$ 2,956	$ 2,271	$ 1,972
Interest cost on projected benefit obligation	2,895	2,521	2,165
Actual return on assets	(6,078)	(4,441)	999
Net amortization and deferral	796	(154)	(4,928)
Net pension cost	$ 569	$ 197	$ 208

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands)

9. Pension Plan, continued:

Assumptions used in the accounting for net pension cost were:

	June 30,		
	1990	1989	1988
Discount rate	9.00%	9.00%	8.75%
Rate of increase in compensation levels	7.00%	7.00%	7.00%
Expected long-term rate of return on assets	9.00%	9.00%	9.00%

The following table sets forth the funded status of the defined benefit plan:

	March 31,		
	1990	1989	1988
Actuarial present value of benefit obligations:			
Vested benefit obligations	$ 24,831	$ 22,282	$ 18,061
Nonvested benefit obligations	1,193	968	2,517
Accumulated benefit obligations	26,024	23,250	20,578
Effect of projected future compensation levels	10,178	9,457	8,763
Projected benefit obligations	36,202	32,707	29,341
Plan assets at fair value (primarily listed stocks, convertible securities and bonds)	50,435	45,475	42,042
Funded status -- plan assets in excess of projected benefit obligations	14,233	12,768	12,701
Unrecognized prior service cost due to plan amendments	(26)	(30)	-
Unrecognized net (gain) loss from past experience different from that assumed	(1,455)	1,578	2,807
Unrecognized net asset arising at July 1, 1987 being recognized over 15 years	(11,939)	(12,934)	(13,929)
Prepaid pension costs	$ 813	$ 1,382	$ 1,579

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands)

10. Related Party Transactions:

An affiliation agreement between AHS and MCP stipulates certain AHS financial commitments to MCP. During fiscal years 1990 and 1989, AHS, through AGH, transferred $5,365 and $6,100, respectively, to MCP.

During fiscal year 1989, AGH transferred $9,023 and $6,813 to AHS and AHF, respectively, and received property and equipment with a net book value of $6,754 from AHF. In fiscal year 1988, AGH transferred $4,155 to AHF. On June 30, 1988, AGH transferred restricted endowments with a cost basis of $47,255 to AHF. These transfers were recorded as net equity transfers.

During fiscal year 1990, CHS was activated to provide selected administrative services to the operating affiliates of AHS and its managed organizations. In previous years, the costs of these administrative services were incurred directly by the various subsidiaries of AHS. CHS charges the various subsidiaries of AHS for these administrative services on a basis that approximates the cost of providing such services. TRG incurred service charges from CHS of $4,934 in fiscal year 1990.

Effective July 1, 1989, ANI borrowed $6,047 from AHF at the prime rate, which was 10% at June 30, 1990. Interest paid on the loan during fiscal year 1990 was $602.

AGH is committed to advancing the quality of health care services it provides to the community it services through the sponsorship of biomedical research. During fiscal years 1990 and 1989, funding provided to ASRI in this connection amounted to $6,727 and $7,326, respectively.

11. Support to Affiliate (Unaudited Information):

The support to MCP of $5,500 for the four months ended October 31, 1990 represents the total commitment to MCP under the affiliation agreement for fiscal year 1991.

12. Subsequent Event - (Unaudited Information):

At November 30, 1990, the relationship of market value and cost of equity securities had improved by $1,270 since October 31, 1990. Accordingly, the valuation allowance for the unrealized loss in equity securities will be adjusted by this amount.

APPENDIX C

DEFINITIONS OF CERTAIN TERMS AND SUMMARIES OF CERTAIN PROVISIONS OF THE BOND INDENTURE AND THE LOAN AGREEMENT

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DEFINITIONS OF CERTAIN TERMS
AND
SUMMARIES OF CERTAIN PROVISIONS OF THE BOND INDENTURE AND THE LOAN AGREEMENT

The following are definitions of certain terms used in, and summaries of certain provisions of, the Bond Indenture and the Loan Agreement. For a description of certain provisions of the Master Indenture, including certain proposed amendments thereto, see Appendix D - "SUMMARY OF THE MASTER TRUST INDENTURE AND CERTAIN PROPOSED AMENDMENTS TO THE MASTER TRUST INDENTURE."

The summaries set forth below should not be regarded as full statements of the documents themselves, or of the portions summarized. Reference is made to the documents in their entireties for the complete statements of the provisions thereof. Copies of the Bond Indenture and the Loan Agreement shall be on file at the principal office of the Authority and the principal corporate trust office of the Bond Trustee.

DEFINITIONS

"Account" shall mean any account established within a Fund by the Bond Trustee pursuant to the Bond Indenture.

"Additional Bonds" shall mean any Bonds or series of Bonds, other than the 1991 Series A Bonds, authenticated and delivered under the Bond Indenture.

"Administrative Expenses" means the reasonable fees and expenses of the Authority (including the initial Authority fee) and the Bond Trustee, including legal fees and expenses, in connection with any Bonds or the administration of the Bond Indenture or the Loan Agreement.

"Annual Administrative Fee" shall mean, with respect to each series of Bonds, the annual fee for the general administrative services of the Authority in the amount specified by the Bond Indenture.

"Architect" means an architect, engineer or construction manager or firm thereof or other Person who is Independent and qualified to pass on questions relating to the design and construction of the Borrower's facilities, has a favorable reputation for skill and experience in performing similar services in respect of facilities of a comparable size and nature, has been appointed as such by the Borrower and is not unsatisfactory to the Authority.

"Authority Representative" shall mean the President, any Vice President, the Secretary, any Assistant Secretary, the Treasurer, any Assistant Treasurer, the Executive Director, any Assistant Executive Director, or the Controller, Acting Controller or any Assistant Controller or any other officer of the Authority or other person designated by a Certified Resolution of the Authority to act for any of the foregoing, either generally or with respect to the execution of any particular document or other specific matter, a copy of which shall be on file with the Bond Trustee.

"Bond Insurance Policy" means the insurance policy issued by the Insurer with respect to the Insured Term Bonds.

"Bond Year" shall mean, with respect to each series of Bonds, each one-year period ending on the last day prior to an anniversary of the date of issue of such series of Bonds.

"Bondholder", "holder" or "owner" shall mean, when used with respect to Bonds, the Person in whose name any Bond is registered in the registration books kept pursuant to the Bond Indenture.

"Bonds" shall mean the 1991 Series A Bonds and any Additional Bonds authenticated and delivered pursuant to the Bond Indenture.

"Borrower" shall mean Allegheny General Hospital.

"Borrower Representative" means the person or persons at the time designated to act on behalf of the Borrower, either generally or with respect to the execution of any particular document or other specific matter, as set forth in By-Laws of the Borrower or a Certified Resolution of the Borrower, copies of which shall be on file with the Authority and the Bond Trustee.

"Business Day" shall mean any day on which the principal corporate trust office of the Bond Trustee is open for business.

"Capital Additions" shall mean the 1991 Project, or any other additions, improvements or extraordinary repairs to or replacements of all or any part of the Property, Plant and Equipment of the Borrower, the cost of which is properly chargeable to a plant or property account under generally accepted accounting principles.

"Certificate" shall mean a certificate or report, in form and substance satisfactory to the Authority and the Bond Trustee, executed: (a) in the case of an Authority Certificate, by an Authority Representative; (b) in the case of a Borrower's Certificate, by a Borrower Representative; and (c) in the case of

a Certificate of any other Person, by such Person, if an individual, and otherwise by an officer, partner or other authorized representative of such Person.

"Certified Resolution" shall mean, as the context requires: (a) one or more resolutions or ordinances of the governing body of the Authority, certified by the Secretary or Assistant Secretary of the Authority, under its seal, to have been duly adopted or enacted and to be in full force and effect as of the date of certification; or (b) one or more resolutions of the governing body of the Borrower or a duly authorized committee thereof, certified by the Secretary or Assistant Secretary of the Borrower or other officer serving in a similar capacity, under its corporate seal, to have been duly adopted and to be in full force and effect as of the date of certification.

"Code" means the Internal Revenue Code of 1986, as amended, and the applicable Treasury regulations thereunder, as the same may be amended from time to time. Reference herein to any specific provision of the Code shall be deemed to refer to any successor provision of the Code.

"Counsel" means an attorney or law firm (which may be counsel to the Authority or the Borrower) not unsatisfactory to the Authority or the Bond Trustee.

"Event of Default" means any of the events described as an event of default under the headings "THE BOND INDENTURE - Events of Default and Remedies" and "THE LOAN AGREEMENT - Events of Default and Remedies" in this Appendix C.

"Extraordinary Redemption" shall mean any extraordinary redemption of Bonds made from insurance proceeds, condemnation awards or other similar sums pursuant to the Bond Indenture.

"Fiscal Year" means the annual accounting year of the Borrower, which currently begins on July 1 in each calendar year.

"Fund" means, as appropriate, the Revenue Fund, the Debt Service Fund, the Debt Service Reserve Fund (if any) for Additional Bonds, the Special Clearing Fund, the Construction Fund, the Redemption Fund or the Rebate Fund established by the Bond Trustee pursuant to the Bond Indenture.

"Government Obligations" shall mean (a) direct obligations of, or obligations the timely payment of the principal of and interest on which is guaranteed by, the United States of America, (b) evidences of ownership of a proportionate interest in specified direct obligations of, or specified obligations the timely payment of the principal of and the interest on which are unconditionally and fully guaranteed by, the United States of America, which obligations are held by a

bank or trust company organized and existing under the laws of the United States of America or any state thereof in the capacity of custodian, (c) except for the purposes described under the heading "THE BOND INDENTURE - Defeasance" in this Appendix C, obligations issued by the Resolution Funding Corporation pursuant to the Financial Institutions Reform, Recovery and Enforcement Act of 1989 (the "FIRRE Act"), (i) the principal of which obligations is payable when due from payments of the maturing principal of non-interest bearing direct obligations of the United States of America which are issued by the Secretary of the Treasury and deposited in the Funding Corporation Principal Fund established pursuant to the FIRRE Act, and (ii) the interest on which obligations, to the extent not paid from other specified sources, is payable when due by the Secretary of the Treasury pursuant to the FIRRE Act, and (d) obligations which are issued by any state or political subdivision thereof or any agency or instrumentality of such a state or political subdivision and which are fully secured as to principal and interest by obligations described in clause (a), (b) or (c) above.

"Independent Public Accountant" means an Independent accounting firm which is appointed by the Borrower for the purpose of examining and reporting on or passing on questions relating to its financial statements, has all certifications necessary for the performance of such services, has a favorable reputation for skill and experience in performing similar services in respect of entities of a comparable size and nature and is not unsatisfactory to the Authority or the Bond Trustee.

"Insurer" means Municipal Bond Investors Assurance Corporation, as issuer of the Bond Insurance Policy.

"Insurance Agreement" means the insurance agreement entered into by the Borrower and the Insurer in connection with the issuance of the Bond Insurance Policy.

"Mandatory Redemption" means any mandatory sinking fund redemption of Bonds made pursuant to the Bond Indenture.

"Moody's" means Moody's Investors Service or any successor organization providing securities rating services.

"1991 Project" means the Capital Additions to the Borrower's Property, Plant and Equipment to be financed through the issuance of the 1991 Series A Bonds.

"1991 Series A Bonds" means the Authority's Revenue Bonds (Allegheny General Hospital), 1991 Series A.

"Note" means any Note issued, authenticated and delivered under the Master Indenture.

"Optional Redemption" means any optional redemption of Bonds made at the direction of the Borrower pursuant to the Bond Indenture.

"Outstanding" shall mean, with respect to the Bonds, all Bonds authenticated and delivered under the Bond Indenture as of the time in question, except:

(a) All Bonds theretofore cancelled or required to be cancelled pursuant to the Bond Indenture;

(b) Bonds for the payment or redemption of which provision has been made in accordance with the Bond Indenture; provided that, if such Bonds are being redeemed, the required notice of redemption shall have been given or provision satisfactory to the Bond Trustee shall have been made therefor, and that if such Bonds are being purchased, there shall be a firm commitment for the purchase and sale thereof; and

(c) Bonds in substitution for which other Bonds have been authenticated and delivered pursuant to the Bond Indenture.

"Person" shall mean an individual, a corporation, a partnership, an association, a joint stock company, a trust, any unincorporated organization, a governmental body or a political subdivision, a municipality, a municipal authority or any other group or organization of individuals.

"Pledged Revenues" shall mean the loan payments received or receivable by the Authority from the Borrower under the Loan Agreement, any and all other amounts payable to the Bond Trustee as specified in the Bond Indenture, and all income and receipts on the funds (other than the Rebate Fund) held by the Bond Trustee under the Bond Indenture.

"Property" shall mean any and all right, title and interest of the Borrower in and to any and all property whether real or personal, tangible or intangible and wherever situated.

"Property, Plant and Equipment" shall mean all Property of the Borrower which is property, plant and equipment under generally accepted accounting principles.

"Qualified Investments" shall mean and include any of the following, to the extent permitted under the applicable laws of the Commonwealth:

(a) Government Obligations;

(b) Obligations which are (i) issued by any state or political subdivision thereof or any agency or instrumentality

of such a state or political subdivision, and (ii) at the time of purchase, rated by Moody's and S&P in either of their two highest categories (disregarding qualifications of such categories by numerical symbols or symbols such as "+" or "-");

(c) any bond, debenture, note, participation certificate or other similar obligation which is (i) issued by the Federal National Mortgage Association, the Federal Home Loan Bank System, the Federal Home Loan Mortgage Corporation or the Student Loan Marketing Association, or (ii) backed by the full faith and credit of the United States of America;

(d) certificates of deposit, whether negotiable or nonnegotiable, issued by any bank, trust company or national banking association or by any savings and loan association (including the Bond Trustee), provided that such certificates of deposit must be (i) continuously and fully insured by the Federal Deposit Insurance Corporation, (ii) continuously and fully secured, to the extent not insured by the Federal Deposit Insurance Corporation, by Government Obligations having a market value (exclusive of accrued interest, other than accrued interest paid in connection with the purchase of such securities) at all times at least equal to the principal amount of such certificates of deposit (or portion thereof not insured as aforesaid), which securities shall be lodged with the Bond Trustee, or any Federal Reserve Bank or Depositary, as custodian, by the issuer of such certificates of deposit, or (iii) issued by a financial institution whose unsecured, long term senior debt obligations are, at the time of such issuance, rated at least A1 by Moody's and A+ by S&P;

(e) bonds, notes, debentures or other evidences of indebtedness issued or guaranteed by a corporation which are, at the time of purchase, rated by Moody's and S&P in their highest rating category;

(f) investments in money market funds which are registered under the Investment Company Act of 1940, whose shares are registered under the Securities Act of 1933 and which, at the time of purchase, are rated by Moody's and S&P in either of their two highest rating categories (disregarding qualifications of such categories by numerical symbols or symbols such as "+" or "-"), provided that sums not in excess of $2,000,000 may be invested in money market instruments which do not satisfy the foregoing requirements for periods of up to six months; and

(g) repurchase agreements with respect to and secured by Government Obligations, which agreements may be entered into with any bank, trust company or national banking association (which may include the Bond Trustee) or with primary government securities dealers which report to, trade with and are recognized as primary dealers by a Federal Reserve Bank and are

members of the Securities Investors Protection Corporation, provided the Bond Trustee has a perfected first security interest in the collateral, that the Bond Trustee or an agent has possession of the collateral and that the collateral is, to the knowledge of the Bond Trustee, free and clear of third party claims.

"Redemption Price" shall mean the principal amount of any Bond to be redeemed pursuant hereto, plus the applicable premium, if any, payable upon redemption.

"Regulatory Body" shall mean any federal, state or local government, department, agency, authority or instrumentality (other than the Authority acting in its capacity as lender pursuant to the Loan Agreement) and any other public or private body, including accrediting organizations, having regulatory jurisdiction and authority over the Borrower, its Property, Plant and Equipment or its operations.

"S&P" means Standard and Poor's Corporation or any successor organization providing securities rating services.

THE BOND INDENTURE

Pledge and Assignment

Under the Bond Indenture, the Authority will pledge to the Bond Trustee all of its right, title and interest in and to the Loan Agreement (except for certain rights to receive payment of its Annual Administrative Fee, Administrative Expenses and indemnification against liabilities), all Funds and Accounts (other than the Rebate Fund) established under the Bond Indenture and all Pledged Revenues. Except as otherwise provided in the Bond Indenture, the foregoing shall be held by the Bond Trustee for the equal and ratable benefit of all 1991 Series A Bonds and any Additional Bonds hereafter issued.

Issuance of 1991 Series A Bonds

Upon the issuance of the 1991 Series A Bonds, the Bond Trustee shall apply the proceeds of the 1991 Series A Bonds, together with other available funds, as follows: (a) accrued interest on the 1991 Series A Bonds to the date of delivery shall be deposited in the Debt Service Fund established under the Bond Indenture; (b) a portion of the proceeds of the 1991 Series A Bonds shall be deposited into the Special Clearing Fund for payment of costs of issuance associated with the 1991 Series A Bonds; and (c) the balance of the proceeds of the 1991 Series A Bonds shall be deposited in the Construction Fund.

Additional Bonds

The Authority may issue one or more series of Additional Bonds from time to time and lend the proceeds thereof to the Borrower pursuant to the Loan Agreement to provide funds for the cost of undertaking or completing a Capital Addition or the cost of refunding or refinancing all or a portion of the Outstanding Bonds of any one or more series or of any long term indebtedness other than Bonds, or for any other purpose permitted under the Act. Such Additional Bonds may be issued upon compliance with all applicable requirements under the Master Indenture, including the issuance of a Note under the Master Indenture to evidence and secure the Borrower's payment obligations in respect of the Additional Bonds, together with the supplement to the Master Indenture providing for the issuance thereof.

Debt Service Fund

The Bond Trustee shall establish a Debt Service Fund into which payments by the Borrower under the Loan Agreement will be deposited for the payment of the principal or redemption price at maturity or upon Mandatory Redemption of and interest on all Outstanding Bonds. Subject to certain conditions specified in the Bond Indenture, moneys in the Debt Service Fund will also be available for purchases of Bonds for cancellation.

Special Clearing Fund

The Bond Trustee shall establish a Special Clearing Fund, into which it shall deposit a portion of the proceeds of the 1991 Series A Bonds for the payment of costs associated with the issuance thereof. Moneys on deposit in the Special Clearing Fund which are not required for such purpose shall be transferred to the Debt Service Fund.

Construction Fund

The Bond Trustee shall establish a Construction Fund for the payment of costs of the 1991 Project and any other Capital Additions for which Bonds are issued or for which other moneys are provided for deposit in the Construction Fund. The costs of such Capital Additions shall be paid by the Bond Trustee upon requisition therefor by the Borrower. Upon completion of the 1991 Project, and moneys remaining in the Construction Fund shall be transferred into the Redemption Fund or the Debt Service Fund at the direction of the Borrower.

Redemption Fund

The Bond Trustee shall establish a Redemption Fund into which it shall deposit such amounts as are required or permitted

under the Loan Agreement or the Bond Indenture to be applied to the Optional or Extraordinary Redemption of Bonds pursuant to the Bond Indenture. Moneys deposited in the Redemption Fund shall be used to pay the redemption price of Bonds upon any such redemption.

Rebate Fund

The Bond Trustee shall establish and maintain a Rebate Fund for each series of Bonds for the purpose of paying to the United States Treasury the amount of excess investment earnings required to be rebated pursuant to Section 148(f) of the Code. The Rebate Fund shall be held separate and apart from all other funds and accounts established under the Bond Indenture and from all other moneys of the Bond Trustee and shall not be subject to the lien of the Bond Indenture. The Borrower will provide the Bond Trustee with written statements and supporting schedules regarding the amounts (if any) payable pursuant to Section 148(f) of the Code and will provide the Bond Trustee with funds sufficient to make all payments required under Section 148(f) of the Code not later than 15 days prior to the due date of each required payment. Amounts received from the Borrower shall be deposited in the Rebate Fund and paid by the Bond Trustee to the United States government. Any excess moneys (including investment income) in the Rebate Fund after any such payment is made shall be paid over to the Borrower at its request.

Debt Service Reserve Fund

No Debt Service Reserve Fund will be initially established for the 1991 Series A Bonds. However, the Borrower will be required to establish a Debt Service Reserve Fund in an amount equal to the maximum annual debt service requirements on the 1991 Series A Bonds (the "Reserve Fund Requirement") if: (i) for any fiscal year of the Restricted Group, the Restricted Group's Long-Term Debt Service Coverage Ratio (as defined in the Master Indenture) was less than 1.35 to 1; or (ii) at the end of any such fiscal year, the Restricted Group's Cushion Ratio (as defined below) was less than 1.4 to 1. In any such case the Borrower shall be required to deposit in the Debt Service Reserve Fund cash or a Reserve Fund Credit Facility (as defined below) equal to the Reserve Fund Requirement, such deposit to be made not later than 180 days after the end of the fiscal year for which either of the foregoing ratios was not met. Any Debt Service Reserve Fund so established may be released to the Borrower if the above ratios are satisfied for two consecutive Fiscal Years.

Moneys in the Debt Service Reserve Fund shall be transferred to the Debt Service Fund on each Scheduled Interest Payment Date, principal maturity date or Mandatory Redemption date to the extent necessary to cure any deficiency in such Debt

Service Fund with respect to the principal or redemption price of and interest on the 1991 Series A Bonds. If the value of the Debt Service Reserve Fund as of any semiannual valuation date pursuant to the Bond Indenture is less than 90% of the Reserve Fund Requirement, the Borrower shall be required to cure the deficiency within 180 days after such valuation date. Excess moneys in the Debt Service Reserve Fund shall be transferred to the Debt Service Fund and applied as a credit against future deposit requirements for such Debt Service Fund.

For the purposes of the foregoing: "Cushion Ratio" shall mean the ratio between (i) the sum of the Restricted Group's cash, marketable investments and board-designated funds, as reported in the Financial Statements of the Restricted Group for any fiscal year and (ii) the Reserve Fund Requirement; and "Reserve Fund Credit Facility" means a letter of credit, surety bond, insurance policy or other comparable instrument, satisfactory in each case to the Insurer.

In addition, a Debt Service Reserve Fund may be established for any Additional Bonds issued under the Bond Indenture if required under the terms of the supplemental indenture providing for such issuance. In any such case, the applicable supplemental indenture shall specify the amount to be deposited into the Debt Service Reserve Fund, the manner in which such deposit is to be made and the purposes for which and manner in which amounts in the Debt Service Reserve Fund are to be applied.

Investment of Funds

All moneys on deposit in any Fund established under the Bond Indenture shall be considered trust funds, shall not be subject to lien or attachment and shall, except as provided in the Bond Indenture, be deposited in the commercial department of the Bond Trustee, until or unless invested or deposited as provided below. All deposits in the commercial department of the Bond Trustee shall, to the extent not insured, be fully secured as to principal by Government Obligations.

All investments shall constitute Qualified Investments and shall mature, or be subject to repurchase, withdrawal without penalty or redemption at the option of the holder on or before the dates on which the amounts invested are reasonably expected to be needed for the purposes of the Bond Indenture.

All investments shall be made at the direction of the Borrower or, in the absence of such direction, at the discretion of the Bond Trustee. No investments shall be made which would cause the Bonds to become "arbitrage bonds" within the meaning of Section 148 of the Internal Revenue Code.

The principal of the Qualified Investments and the interest, income and gains received in respect thereof shall be applied as follows: (a) during the construction period for the 1991 Project or for any future Capital Addition for which a Construction Fund is established (unless otherwise provided in the applicable supplement to the Bond Indenture), all interest, income and profits received in respect of the Qualified Investments or upon the sale or other disposition thereof shall (after deduction of any losses) be retained in or transferred to the Construction Fund and, after the completion of such construction, shall be retained in or transferred to the Revenue Fund; and (b) whenever any other transfer or payment is required to be made from any particular Fund, such transfer or payment shall be made from such combination of maturing principal, redemption or repurchase prices, liquidation proceeds and withdrawals of principal as the Bond Trustee deems appropriate for such purpose.

Neither the Authority nor the Bond Trustee shall be accountable for any depreciation in the value of the Qualified Investments or any losses incurred upon any authorized disposition thereof.

Semiannually on the dates specified in the Bond Indenture, the Bond Trustee shall determine the value of the assets in each of the Funds established under the Bond Indenture. As soon as practicable after each such valuation date, the Bond Trustee shall furnish to the Authority and the Borrower a report of the status of each Fund as of such date. The Bond Trustee shall also advise the Borrower at such time of the amount then available in the Debt Service Fund as a credit against future deposits prior to the next valuation date in direct order of the due dates of such deposits. In computing the value of assets in any Fund or Account, investments shall be valued at the lower of the cost or market value thereof, and all investments (valued as aforesaid) and accrued interest thereon shall be deemed a part of such Funds and Accounts. In addition, the Bond Trustee shall provide the Authority and the Borrower with monthly statements showing amounts deposited into and withdrawn from each Fund, the investments made with amounts in each Fund and the investment income received from such investments.

<u>Covenants of the Authority</u>

The Authority covenants, among other things, promptly to pay, but only from Pledged Revenues, the principal of its Bonds and interest thereon. The Authority shall enforce all of its rights and privileges under the Loan Agreement, and honor all of its obligations thereunder. The Authority shall not, without the consent of the Bond Trustee, amend the Loan Agreement so as